

## ***Winston-Salem Journal***

### **Lowdown Loans**

*Subprime lenders take a huge cut from mortgages, often foreclose*

**By Richard Craver**

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Evelyn Donathan's financial problems began in 1996 when the roof of her home began to crumble. After soliciting the help of a home-repair company that focuses on low-income households, Donathan agreed to a 15-year equity loan of \$28,385 for the roof repair, as well as vinyl siding and money to consolidate her bills and those of her son, William. After falling behind on two mortgage payments, her loan was turned over to the first of at least five mortgage servicers, whose primary mission is to collect past-due mortgage payments or begin foreclosure procedures.

The current servicer, SN Servicing Corp. of Eureka, Calif., tried to padlock her doors just eight days after buying her loan from CitiFinancial Mortgage in December 2001, she said. SN Servicing withdrew its foreclosure attempt a month later.

Since then, Donathan, who lives in Mount Airy, has been sending monthly mortgage payments of \$330.50 to SN Servicing.

Of this, only about \$14.17 is credited each month to the principal of the loan. The rest goes to interest and a hodgepodge of fees that Donathan, her family and her lawyer can't decipher. SN Servicing officials could not be reached for comment.

In about 8 1/2 years, Donathan faces a "balloon" payment of \$25,472 that she must pay in cash or lose her home of 23 years.

"There's a good chance I will never pay off this loan before I die," said Donathan, 50, who is disabled with back problems. "If I had somewhere to go, I'd throw my hands up and say the heck with this. But that is what these people are counting on me to do. "I'm stubborn because I want to stay in my house and pass it on to my children one day," Donathan said. "What I'm afraid of is that what I'm going to pass on is this debt and that they will come after my son and my family."

Consumer advocates said that the typical target of a predatory mortgage lender or broker is a low- to moderate-income resident, the elderly, the disabled, immigrants or people with poor credit ratings.

"The disabled, the elderly and those on fixed incomes are the most vulnerable to predatory loans," said Seth Rosebrock, a lawyer with the Legal Aid Society of Northwest North Carolina Inc. Rosebrock represents Donathan and 39 other clients in cases involving accusations of predatory mortgage lending.

The Legal Aid Society has become more active in representing homeowners who have filed lawsuits against businesses accused of predatory-lending practices. In most instances, the lawsuits allege usury, unfair trade practices and violations of state and federal fair-lending laws.

Rosebrook said that subprime loans are eight times more likely to be foreclosed upon than conventional loans. He acknowledged that the weak economy has played a major role in the foreclosure increase.

"But many of these foreclosures come at a time when interest rates are at an all-time low, and refinancing should have been readily available," Rosebrook said.

"The balloon payments and unwarranted attempts to foreclose make you come back in and refinance and pay those heinous origination and broker fees again, or get thrown into the street.

"In that situation, there is this asymmetry of power. The subprime lender can charge exorbitant interest rates, not because they need to in order to stay in business, but because they can because the borrower has no other option," he said.

Carl Syphrett and his wife fell into what he called a web of predatory lending in 1955 when they inherited a split-level ranch house in Clemmons worth \$100,000. The Syphretts needed a loan to pay for funeral expenses and other obligations related to the will.

Because the Syphretts didn't qualify for a loan through a traditional lender, they responded to a flier from Equicredit Corp. and took a seven-year \$25,000 mortgage loan. At an interest rate of 12.1 percent, monthly payments were \$259.

However, very little of that went to pay off the principal. The terms of the contract required the Syphretts to make one final payment of about \$24,000 in 2004.

Syphrett said that his problems began two years ago when Equicredit, a subprime lender no longer in business, said that he had let his mortgage insurance with an independent company lapse, which he denied. Equicredit eventually admitted its mistake, but charged the couple for mortgage insurance for a year, Syphrett said.

Equicredit sold the loan to Fairbanks Capital Corp. of Salt Lake City.

Fairbanks introduced itself to the Syphretts by demanding \$2,500 for past-due payments, as well as lawyer and other fees, or it would foreclose on the home. Syphrett denied that his payments were overdue.

Syphrett said he scraped together \$2,515 from family and friends to pay off Fairbanks and have the foreclosure attempt dismissed.

But a few weeks later, he received a request from Fairbanks for \$1,000 for lawyer fees related to its own review of the foreclosure settlement.

"It comes to find out they've been putting \$2 of the \$250 payment toward the principal of the loan each month and the other \$248 toward interest and other fees," he said. Syphrett said that even after he hired the Legal Aid Society of Northwest North Carolina to help with the case, his family continues to get harassing phone calls, letters and visits from collectors to their home from Fairbanks representatives despite state laws to prevent such practices.

Fairbanks has been named in lawsuits recently brought by the Legal Aid Society on behalf of two Winston-Salem residents.

Asked by the Winston-Salem Journal about its business practices in the Triad, Fairbanks provided an advice list for homeowners who fall behind on their payments.

"The company believes that an early and effective intervention is key to resolving a borrower's default," Fairbanks said in a statement.

"A strong emphasis is put on helping the borrower retain ownership and protect their credit ratings. Fairbanks Capital's performance is evident by a resolution rate (other than foreclosure) in excess of 70 percent vs. 45-50 percent by traditional servicers." Minority homeowners are among targets of predatory mortgage brokers and lenders, said Monica Lett, the director of housing and neighborhood development for the Housing Authority of the city of Winston-Salem.

"Most of the abuses are occurring with people seeking mortgage refinancing," Lett said. "They entice people who are paying \$600 in apartment rent with a loan that upfront means that would get into a home for a lower monthly payment. But then the payments balloon up to the point of exorbitant rates."

Lett said she has had clients who own Habitat for Humanity homes wanting to refinance their zero-interest loans because of the enticements of the mortgage brokers and lenders. "There are several people who make good money who have fallen victim to predatory lending because they choose to trust a virtual stranger with a decision that they're investing six figures in," she said.

Rosebrock said that the predatory mortgage loans draw as much money out of his clients' pockets as they can and then the lenders foreclose when the clients can't pay any more. "Even the poor will pay their last penny to stay in their homes, but there comes a time when all the client has left is one last penny," Rosebrock said.